

TRANSMITTAL # 5

MEMORANDUM

August 12, 2003

TO: Workforce Development Council
FROM: Roger B. Madsen, Director
SUBJECT: External Study Committee on Unemployment Insurance
ACTION REQUESTED: Information Only.

BACKGROUND:

The Idaho Department of Labor has appointed an External Study Committee of stakeholders to review the State's Unemployment Insurance (UI) system and make recommendations to the Governor and the 2004 Legislature to address the following issues:

- UI benefit payouts are projected to be \$180 million during 2003, up from \$174.3 million in 2002, \$140.7 million in 2001, and \$98.8 million in 2000.
- UI tax revenues are projected to be \$112.5 million for 2003 and have averaged roughly \$110 million in 2002, 2001, and 2000.
- Because benefit payouts will have exceeded revenues for three years, the UI Trust Fund is under serious pressure. The UI Trust Fund balance is projected to be \$209.2 million at the end of 2003, down from \$276.6 million in 2002. If the economy continues at its current rate, the Trust Fund could drop to \$149 million in 2004.
- If the Trust Fund goes broke, Idaho would be forced to borrow from the federal government to pay benefits and would have to pay the loan back with interest. That could result in even greater tax increases in the future. Six state UI programs have recently borrowed from the federal government: Illinois, Minnesota, Missouri, New York, North Carolina and Texas.
- If no action is taken a two-year tax rate freeze implemented for 2003 and 2004 will end in January 2005. If Idaho's economy grows at its current rate, the Department estimates that current law would result in an automatic increase in the effective UI tax rate from 0.8% to 1.77%, with total tax collections increasing from approximately \$150 million in 2004 to over \$210 million in 2005.

The Department has conducted an extensive internal study of the UI system during the last five months and will be making proposals to the External Study Committee regarding possible tax increases and/or benefit reductions. The first meeting of the Committee will be Tuesday, August 19th, at the Department's Annex conference room, 120 S. Third, in Boise.

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